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IN THE

Supreme Court of the United States

October Term 1969

No. 398

UNITED STATES OF AMERICA,

Plaintiff,

—vs.—

WESTERN ELECTRIC COMPANY, INCORPORATED,

Defendant-Respondent,

—and—

AMERICAN TELEPHONE AND TELEGRAPH COMPANY,

Defendant.

COMPONENTS, INC.,

Movant-Petitioner.

BRIEF IN OPPOSITION TO PETITION FOR CERTIORARI

DONALD B. KIPP
JAMES C. PITNEY
Counsel for Respondent,
Western Electric Company, Incorporated

PITNEY, HARDIN & KIPP
570 Broad Street
Newark, New Jersey 07102

TABLE OF CONTENTS

	PAGE
The Opinion Below	1
Counterstatement of Question Presented	1
Counterstatement of the Case	2
A. The Antitrust Action and the Final Judgment	2
B. The Patent License Agreement and the Delaware Proceedings	4
C. The Proceedings Below	5
D. Lack of Participation by the Department of Justice	6
ARGUMENT	
I. No Question Is Presented Which Merits Review by This Court	7
II. The Determination of Both Courts Below Is Clearly Correct	9
CONCLUSION	12

TABLE OF AUTHORITIES CITED

Cases:

Application of Clark Walter & Sons, Inc., (D.C. N.J., Feb. 26, 1968, unreported), *aff'd*, 392 U.S. 659 (1968)	11
Magnum Co. v. *Coty*, 262 U.S. 159 (1923)	7

PAGE

Maul Bros., Inc. v. *Emhart Corp.*, 356 F. 2d 628 (6th Cir. 1966) 9

Rice v. *Sioux City Cemetery*, 349 U.S. 70 (1955) 7

United States v. *ASCAP*, 341 F. 2d 1003 (2d Cir. 1965), *cert. denied sub nom. Metromedia, Inc.* v. *ASCAP*, 382 U.S. 877 (1965) 11

United States v. *ASCAP*, 208 F. Supp. 896 (S.D.N.Y. 1962), *aff'd* 331 F. 2d 117 (2d Cir. 1964), *cert. denied* 377 U.S. 997 (1964) 9

United States v. *Libbey-Owens-Ford Glass Co.*, 1948-49 Trade Cases ¶62,323 (N.D. Ohio 1948) and 1955 Trade Cases ¶68,207 (N.D. Ohio 1955) 9

United States v. *Radio Corporation of America*, 186 F. Supp. 776 (E.D. Pa. 1960), *appeal dismissed per curiam, sub nom. Westinghouse Broadcasting Co.* v. *United States*, 364 U.S. 518 (1960) 11

Statutes:

15 U.S.C. §§1-3 2

15 U.S.C. §4 2

15 U.S.C. §16 2

Miscellaneous:

Rules of the Supreme Court of the United States, Rule 19 7

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The Opinion Below

The Opinion of the Court of Appeals for the Third Circuit (P 1a)[1] is reported in 409 F. 2d 1377.

Counterstatement of Question Presented

In a dispute over royalties owing under a license agreement for the past use of patents, should this Court review

[1] "P" refers to the Petition for Writ of Certiorari and the Appendix thereto.

the narrow question whether the licensee may invoke Section X(B) of the Final Judgment entered by consent in *U. S.* v. *Western Electric Company, Inc., et al.,* (D.N.J., Civ. Action 17-49, January 24, 1956) to obtain retroactive revision by court order of the royalty provisions of the agreement?

Counterstatement of the Case

This matter is before the Court on Petition for a Writ of Certiorari to review a determination of the Court of Appeals for the Third Circuit affirming an Order of the United States District Court for the District of New Jersey. Both courts held that jurisdiction had not been retained by the District Court in the Final Judgment entered herein on January 24, 1956, to consider the application made by the Petitioner, Components, Inc. Components was not a party to the proceedings which that Judgment concluded.

A. *The Antitrust Action and the Final Judgment.*

The action which resulted in the Final Judgment in question was instituted by the United States of America against Western Electric and American Telephone and Telegraph Company on January 14, 1949. The Complaint alleged violations of various provisions of the Sherman Act (15 U.S.C. §§1-3), and sought injunctive relief. The defendants filed their answer on April 27, 1949, denying the alleged violations. The Final Judgment entered on January 24, 1956, recited, consonant with Section 5 of the Clayton Act (15 U.S.C. §16), that it was entered on consent of the parties without trial or adjudication of any issues of fact or law, without constituting any evidence or admission by any party in respect of any such issues, and before any testimony was taken (A47).[2]

[2] Refers to the Appendix filed herein in the Court of Appeals.

Section X(A) of the Final Judgment requires the defendants to grant

> "to any applicant who shall make written application therefor at any time or from time to time, non-exclusive licenses * * * to make, have made, use, lease and sell any or all equipment as desired by the applicant, such licenses * * * (3) to be at reasonable royalties to all persons under all * * * future Bell System patents; * * *" (P 16a).

Section X(B) thereof provides in its entirety:

> "(B) Upon receipt of a written request for a license under the provisions of this Section, the defendant to whom such request is addressed shall advise the applicant in writing of the royalty, if applicable, which it deems reasonable therefor, and also of such licenses as defendants may specify under subsection (A) above. If the parties are unable to agree within ninety (90) days upon reasonable royalties or any other terms, the applicant or such defendant may apply to this Court for the determination of reasonable royalties and other terms, and the defendants shall, upon filing or receipt of notice of the filing of such application to this court, promptly give notice thereof to the plaintiff. In any such proceeding the burden of proof shall be on the defendant to establish the reasonableness of royalties or other terms requested by it, and on the applicant to establish the reasonableness of royalties or other terms requested by the applicant. Pending final determination of the foregoing, the applicant or said defendant may apply to this Court to fix interim royalty rates and other interim terms and conditions. If this Court fixes such interim rates, terms and conditions, such defendant shall then tender and the applicant may then

accept an agreement under which licenses shall be granted, in accordance with such interim determination, providing for the periodic payment of royalties, if applicable, at such interim rates for any manufacture, use, or sale under the patents involved. If the applicant fails to accept such license agreement or fails to pay interim royalties in accordance therewith such action shall be grounds for the dismissal of his application." (P 17a).

B. *The Patent License Agreement and the Delaware Proceedings.*

Components was organized early in 1960 (four years after entry of the Final Judgment) for the purpose of manufacturing and selling solid electrolytic capacitors. It applied to Western Electric that year for a patent license agreement. As Components' moving papers below disclose, "Following this application to Western Electric, extensive negotiations finally resulted in the consummation of a license agreement on June 1, 1960." (A41). Under the terms thereof Western Electric granted to Components nonexclusive licenses to produce capacitors under Bell System patents at stated royalties payable only if such patents are used in the licensed equipment (A13, 14, 16, 17).

Although Components has been manufacturing capacitors, it has never paid any royalties to Western Electric (A36). Components' counsel conceded in October, 1968, that its liability for the use of Bell System patents at that time "could exceed a couple of hundred thousand dollars." (A122). After fruitless efforts to persuade Components to pay the royalties which it believed to be owing, on May 24, 1968, Western Electric brought suit against Components in the Court of Chancery of the State of Delaware for an accounting.

C. *The Proceedings Below*

Instead of responding to Western Electric's Complaint in the Delaware action, Components sought to invoke Section X(B) of the Final Judgment in an effort to persuade the District Court for the District of New Jersey to assume exclusive jurisdiction of the dispute over unpaid royalties. On July 8, 1968, it filed what it called a "Motion for Determination of Reasonable Royalties". Its moving papers disclosed, *inter alia:* (1) that "extensive negotations" resulted in "consummation" of a license agreement between Western Electric and Components[3] (A41); (2) that Components, having become dissatisfied with the royalty provisions of that agreement, was seeking to have the District Court substitute other royalty provisions retroactively to cover Components' past use of Bell System patents (A41-2); and (3) that Components was endeavoring also to use the Final Judgment as a basis for ousting any other court, including the Delaware court, of jurisdiction to entertain an action by Western Electric on the contract (A45).

The District Court denied Components' motion for the reason that Section X(B) was inapplicable in the circumstances disclosed in Components' moving papers. It ruled that "The final judgment did not contemplate review of license agreements that were entered upon and retroactive considerations of reasonableness of royalties demanded in those agreements." (P8a). The Court of Appeals affirmed, observing *inter alia*:

> "* * * Since the language of Section X(B) postulates a 'written request for a license,' an 'applicant,' and circumstances where the parties are unable to agree

[3] On at least 25 occasions in its moving papers, Components expressly acknowledged that the 1960 license agreement had been "consummated", or referred to it as an "agreement". (A8, A39, A41, A42, A64, A97, A102, A106-10).

> • • • upon reasonable royalties or any other terms,' its language is clearly addressed to situations where the failure to conclude a licensing agreement warrants judicial determination of what its terms should reasonably be so that the parties may commence performance." (P3a-4a).

Contrary to Components' assertions (P24; also P3, 10, and 13), neither of the courts below assumed that the 1960 agreement is a valid, enforceable contract. The District Court specifically declined to pass on the validity of that agreement (A122-3, P8a). The Court of Appeals regarded the matter as "irrelevant", and assumed for the purpose of its determination "that the 1960 licensing agreement is unenforceable, as alleged in Components' application". (P2a-3a).

D. *Lack of Participation by the Department of Justice.*

The Department of Justice was notified of Components' motion.[4] It chose not to participate in either of the proceedings below, taking the position that "the dispute here appears to be essentially private in nature." (A130).

[4] See the notice requirement of Section X(B), *supra* p. 3.

ARGUMENT

I.

No Question Is Presented Which Merits Review by This Court.

The only question in this case is whether the courts below correctly construed Section X(B) of the Final Judgment herein as being inapplicable in a dispute over royalties due for the past use of patents under a license contract. Clearly this is not a question warranting this Court's attention.[5]

We are not concerned here with the interpretation or application of any federal statute. All that is involved is the correctness of the decree court's construction of its own decree. No significant federal question is even remotely involved. The dispute over royalties is strictly private in nature. For that reason, the Department of Justice declined to participate in the lower court proceedings. The ruling below does not conflict with any ruling of this Court, or with that of any other court. As will hereinafter appear, it is clearly correct.

Components has proffered four purported questions (P2) in a manner designed to make it appear that there may be something in this case which would warrant this Court's review. Apart from whether any of these questions would merit consideration by this Court, the record clearly demonstrates that none are really present in this case. There is no issue of subordinating federal antitrust and patent policy to state law, for all that was decided below was that the provision of the Final Judgment on which

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[5] See Rule 19 of the Rules of this Court; *cf. Rice* v. *Sioux City Cemetery*, 349 U.S. 70, 73-74 (1955); *Magnum Co.* v. *Coty*, 262 U.S. 159 (1923).

Components relied did not permit the application which it sought to make. There is no issue whether antitrust consent decrees should be construed "fairly and reasonably" or "narrowly", because both Courts below decided that no reasonable construction supported Components' position. Furthermore, the District Court did not dismiss Components' claim for lack of jurisdiction after "having exercised jurisdiction to determine the merits of [that] claim." As the record shows, the District Court expressly declined to exercise jurisdiction to consider the merits (P8a-9a).[6] Finally, the record shows also that there is no basis for the purported question of whether allegations in an application allegedly made under the Final Judgment are entitled to be taken as true, "in the same manner as a complaint in an ordinary civil action", when the application is challenged as inadequate on its face. The ruling of each court below *was* based on the allegations of Components' own moving papers, as urged by Western Electric.

Nor does the fact that other consent decrees have provisions for court determination of reasonable royalties in stated circumstances warrant review of the ruling below. Apart from individual variations in these decrees, it does not appear that Components' proffered construction, or anything like it, has ever been urged upon any court, so that the ruling below presents no inconsistency with that of any other court. The fact that Components' strained and unsupportable contention was rejected below, of course, does not provide a suitable question for this Court's consideration.

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[6] As respects the District Court's refusal to permit discovery on the jurisdictional issue, since Components was not a party to the Judgment and its own moving papers disclosed it had no standing to make the application it made, there was no basis for permitting the discovery it sought.

It is respectfully submitted that there is no occasion herein for the exercise by this Court of its certiorari jurisdiction.

II.

The Determination of Both Courts Below Is Clearly Correct.

It is clear that one who seeks judicial determination of reasonable royalties pursuant to a consent decree must bring himself within the terms of the particular decree provision on which he relies. *Maul Bros., Inc.* v. *Emhart Corp.*, 356 F. 2d 628 (6th Cir. 1966); *United States* v. *Libbey-Owens-Ford Glass Co.*, 1948-49 Trade Cases ¶62,323 (N.D. Ohio 1948) and 1955 Trade Cases ¶68,207 (N.D. Ohio 1955); *United States* v. *ASCAP*, 208 F. Supp. 896 (S.D. N.Y. 1962), *aff'd*, 331 F. 2d 117 (2d Cir. 1964), *cert. denied* 377 U.S. 997 (1964). As the Second Circuit reasoned in *ASCAP* (331 F. 2d at 123-4):

> "It is important to the obtaining of consent decrees, on which the effective enforcement of the antitrust laws depends in no small degree, that defendants who sign them should know these will not be stretched beyond their terms. Hughes v. United States, 342 U.S. 353, 357, 72 S. Ct. 306, 96 L. Ed. 394 (1952); United States v. Atlantic Refining Co., 360 U.S. 19, 23, 79 S. Ct. 944, 3 L. Ed. 2d 1054 (1959)."

Section X(B) of the Final Judgment herein provides in relevant part:

> "(B) Upon receipt of a written request for a license * * * the defendant * * * shall advise the applicant in writing of the royalty, * * * which it deems reasonable therefor, * * *. If the parties are unable to agree

> within ninety (90) days upon reasonable royalties * * *, the applicant * * * may apply to this Court for the determination of reasonable royalties * * *. Pending final determination of the foregoing, the applicant * * * may apply to this Court to fix interim royalty rates * * *. If this Court fixes such interim rates, * * * such defendant shall then tender and the applicant may then accept an agreement under which licenses shall be granted, in accordance with such interim determination, providing for the periodic payment of royalties, * * * at such interim rates * * *. If the applicant fails to accept such license agreement or fails to pay interim royalties in accordance therewith such action shall be grounds for the dismissal of his application."

It is clear that Section X(B) gives only an "applicant" for a patent license the right to apply to the District Court for a determination of reasonable royalties, that it is a prerequisite to such an application that the parties be "unable to agree" on reasonable royalties, and that even where these conditions are met that court has retained jurisdiction only to determine reasonable royalties for the future use of the licenses to be granted. Components met none of these conditions, since it admittedly executed the license agreement in question and was asking the District Court to determine reasonable royalties not for the future but for its past use of Bell System patents pursuant to its licenses.[7] Each of the courts below correctly regarded

[7] In its petition Components argues for the first time that Section X(A) of the Final Judgment gives it the right to make application for a court determination of reasonable royalties "at any time". However, language in Section X(A) which Components slights makes it clear that this section refers only to the right to apply for a patent license "at any time" and has nothing to do with the matter of seeking a court determination of reasonable royalties for such a license—a matter governed exclusively by Section X(B) in which the language "at any time" does not appear.

as irrelevant to its determination the matter of whether Components might or might not have valid defenses to Western Electric's suit on the license contract.[8]

Components executed a patent license agreement with Western Electric and for many years manufactured and sold equipment allegedly using inventions of Western Electric's patents. When sought to be held to account, it attempted to use Section X(B) of the Final Judgment as a basis for asking the District Court to relieve it of its contractual royalty obligations and to substitute new royalty provisions retroactively. The District Court correctly decided that it had no jurisdiction to entertain Components' request; and the Court of Appeals correctly affirmed that determination.[9]

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[8] Components apparently suggests (P. 20-1) that it should have been afforded the right to attack Western Electric's "licensing practices" as "discriminatory" in contravention of the Final Judgment. Components, which was not a party to the Judgment, had no standing to invoke the jurisdiction of the District Court for the purpose of reviewing Western Electric's compliance with it. This was settled by a recent ruling under the Final Judgment in this case. *Application of Clark Walter & Sons, Inc.*, (D.C.N.J., Feb. 26, 1968, unreported), *aff'd*, 392 U.S. 659 (1968). See also *United States* v. *ASCAP*, 341 F. 2d 1003 (2d Cir. 1965), *cert. denied sub nom. Metromedia, Inc.* v. *ASCAP*, 382 U.S. 877 (1965); *United States* v. *Radio Corporation of America*, 186 F. Supp. 776 (E.D. Pa. 1960), *appeal dismissed per curiam sub nom. Westinghouse Broadcasting Co.* v. *United States*, 364 U.S. 518 (1960).

[9] The District Court's dismissal of Components' application was "without prejudice" to its right to invoke Section X(B) for a determination of future royalty obligations in the circumstances contemplated by that decree provision (P8a-9a). This right was also recognized by the Court of Appeals (P4a).

CONCLUSION

The Petition for Certiorari should be denied.

Respectfully submitted,

DONALD B. KIPP /
JAMES C. PITNEY
Counsel for Respondent
Western Electric Company, Incorporated

Dated: August 29, 1969.